



Insurance Institute
of Michigan

Fact Sheet

Auto Insurance

Overview

Michigan's no-fault system offers the **highest benefits** in the country. People injured in Michigan auto accidents receive unlimited, lifetime medical benefits. No other state comes close to mandating such a high level of medical benefits. Insurance rates in Michigan are not arbitrary. They are a true reflection of the cost of providing the coverage.

Facts To Know:

Michigan's average premiums 12th highest in nation

Michigan's average auto insurance premium in 2006 was \$1,067, ranking 12th highest in the country, according to the National Association of Insurance Commissioners. That translates into \$3 per day for the best coverage in the nation. There are **11 states** with higher average auto insurance premiums, with far less benefits.

Michigan premium increased less than 3 percent per year since 1989

From 1989 to 2006, Michigan's average premium increased 68.1 percent, or about 3 percent compounded per year. During that same period, Arkansas (84%), Delaware (72%), Florida (72%), Iowa (76%), Kansas (73%), Kentucky (85%), Louisiana (89%), Montana (91%), Nebraska (106%), North Dakota (87%), South Dakota (89%), Utah (72%), and West Virginia (87%) all had higher percentage increases. Source: National Association of Insurance Commissioners.

Insurance premiums are based not only on how many accidents occur, but how much those accidents cost

Insurance costs are based on the severity (cost) and frequency (number) of auto crashes. While the number of auto crashes may be decreasing, the costs to treat medical injuries, repair cars and defend lawsuits are not going down.

In fact, the average repair cost for cars damaged in an insurance claim increased from \$2,356 in the third quarter of 2008 to \$2,520 during the same period in 2009, according to Mitchell International.

During the last 10 years, the average auto insurance Personal Injury Protection (PIP) claim (which covers medical treatment) rose more than 250 percent. In 1998, the average PIP claim was \$9,103 and in 2008, the average PIP claim was \$31,883. Source: Property Casualty Insurers Association Fast Track Monitoring.

The average Bodily Injury Liability (lawsuit) claim rose 46 percent during that same time, from \$24,481 in 1998 to \$35,769 in 2008. Source: Property Casualty Insurers Association Fast Track Monitoring.

Michigan auto insurance profitability less than Fortune 500

Michigan auto insurance carriers are not making "windfall or excessive" profits. In fact, during the 10-year period from 1998 to 2008, the return on net worth for auto insurance companies in Michigan was 2.1 percent. That compares to a return on net worth of 4.9 percent on a United State Treasury Yield. Return on net worth is the ratio of after-tax income to net worth. Sources: National Association of Insurance Commissioners, Federal Reserve, Insurance Information Institute.

During that same period, profitability in Michigan's property/casualty insurance markets is barely half of the Fortune 500 benchmark. Sources: National Association of Insurance Commissioners, Federal Reserve, Insurance Information Institute.

Consumers in Michigan benefit by the use of credit-based insurance scoring

In Michigan, two-thirds of all policyholders are receiving a lower premium for maintaining good credit. Credit-based insurance scoring helps more accurately price insurance based on a consumer's claim potential. As a result of credit-based insurance scoring, many consumers pay less for insurance than they otherwise would, and enables insurance companies to offer coverage to more consumers than they had in the past.

In July of 2007 after years of extensive research, the Federal Trade Commission (FTC) found that use of credit-based insurance scores leads to more accurate underwriting of auto insurance policies in that there is a correlation between insurance scores and the likelihood of filing an insurance claim.

Prohibiting the use of credit-based insurance scoring will have a detrimental impact on those policyholders receiving significant discounts in Michigan. In Maryland, policyholders faced double-digit percentage increases in their homeowners insurance because of a 2002 state law that banned the use of insurance credit scoring. Credit scoring does not take into account any information, such as sex, marital status or occupation.

California's Proposition 103 and prior approval of rates haven't resulted in lower rate increases than in Michigan

It is interesting to note that the latest study on average premiums from the National Association of Insurance Commissioners (2006) found that California's average premium increased 10 percent from 2002 to 2006, while Michigan's average premium increased only 4 percent during this same time. In fact, from 2005 to 2006, California's average premium increased 1 percent, while Michigan's average premium went down 2 percent.

In Michigan, drivers are mandated to purchase unlimited, lifetime medical benefits. California drivers are not mandated to buy medical coverage at all.



Insurance Institute of Michigan

Insurance Institute of Michigan Response To the Auto and Home Insurance Consumer Advocate's Recommendations to the Governor

The Governor-appointed Automobile and Home Insurance Consumer Advocate released a report to the Governor on February 4 with his recommendations to reform the auto insurance system in Michigan. The Insurance Institute of Michigan, a property/casualty trade association representing auto insurance companies that write 74 percent of the market, is disappointed that the recommendations do not address the costs that drive up the price of insurance for consumers. In fact, many of the Advocate's recommendations would lead to higher, not lower premiums.

The following is IIM's response to each of the Advocate's recommendations:

Advocate Recommendation: 1) Enact a definition of premium affordability which assures that auto insurance rates are available to Michigan consumers at fair and reasonable rates.

IIM Response:

The Consumer Advocate has erroneously attempted to inject a requirement of "affordability" into Michigan's law governing auto insurance. The Michigan Supreme Court did not use the term "affordable" in the *Shavers v Attorney General* (402 Mich 554) (1978) decision. The *Shavers* court did, however, hold that rates must be "fair and equitable."

The no-fault statute relies on a competitive market to deliver rates that cannot be excessive, inadequate or unfairly discriminatory. In fact, the Michigan Insurance Commissioner's own 2005 study, the *Competitiveness and Premium Excessiveness of the Home and Auto Insurance Industries in the State of Michigan*, by Center for Urban Studies, Wayne State University and Michigan Office of Financial and Insurance Services, 2005, found that:

"[T]he regulations governing the insurance industry in the State of Michigan fundamentally are based on an economic analysis of market structure and performance. We believe that this is a correct perspective and pursue it consistently in this report."

There is no government requirement that a competitively-marketed product be made "affordable" to consumers. The basic necessities of food, shelter and health care do not carry this burden, nor should private insurance products. The government may choose to subsidize those markets for the economically disadvantaged, for example: food stamps, housing assistance and Medicaid, but it does not force the marketplace to subsidize one consumer with surcharges on another.

Defining affordability in the no-fault statute will do nothing to reduce costs and lower insurance premiums for Michigan policyholders.

Advocate Recommendation 2) Require insurance companies to obtain the Insurance Commissioner's approval, prior to raising their rates.

IIM Response:

Again, the Consumer Advocate erroneously interprets the *Shavers* decision to require prior approval of rates. All personal automobile insurance rates in Michigan are filed with the Office of Financial and Insurance Regulation (OFIR) and are available for review by the public. In addition, the OFIR Commissioner has 30 days to review the rates and reject them if they are found to be in conflict with the law. Contrary to the Consumer Advocate's contention, the "file and use" system does not allow insurance companies to "grant themselves a pay raise whenever they choose."

All but about 15 states allow insurance companies to use their rates immediately after they are filed. Prior approval does not translate into lower premiums. In fact, of the 15 states with prior approval, seven have higher average premiums than Michigan (\$1,067), even though Michigan has by far the highest benefits, including Connecticut (\$1,095), District of Columbia (\$1,342), Louisiana (\$1,230), Massachusetts (\$1,200), Nevada (\$1,117), New Jersey (\$1,336) and New York (\$1,262). Price controls do not benefit consumers. Price controls lead to less companies offering insurance in the marketplace. Less competition can and ultimately will result in higher rates.

Excessive regulatory interference in the marketplace and price controls that hamper the ability for companies to properly price their products were recently cited as factors in several insurance company departures from the homeowners market in Florida.

Delaying the effective date of rate changes, whether they are increases or decreases, will do nothing to reduce costs and lower premiums.

Advocate Recommendation 3) Give consumers who have purchased collision insurance, the right to recover actual repair costs to the vehicle, from the at-fault party in an accident.

IIM Response:

Permitting consumers to sue for actual repair costs from at-fault drivers is a radical departure from Michigan's no-fault system, and will certainly lead to increased costs for the consumer.

Michigan's no-fault insurance system was designed specifically to eliminate expensive and time-consuming lawsuits and to commit a greater percentage of premium dollars to paying claims. The mini-tort provision of the no-fault system is designed to compensate innocent drivers for their out-of-pocket costs, up to \$500. Typically, mini-tort claims can be handled through the low-cost small claims process. Expansion to all collision expenses will require expensive lawyer-assisted litigation and result in delays in auto repair and payment.

Expanding lawsuits for collision damage will increase costs to the no-fault system and to policyholders.

Insurance Advocate Recommendation 4) Strengthen the Insurance Commissioner's authority to award refunds to consumers, upon a finding that a company has overcharged policyholders.

IIM Response:

Currently, insurance companies must file all rates with the OFIR Commissioner, who has the authority to review the rates and reject them if they are excessive, inadequate or unfairly discriminatory. The OFIR Commissioner has 30 days from the time the rates are filed to reject them. If he does not reject the rates, they are deemed approved.

Under the Essential Insurance Code, laws are in place for policyholders to contest their premium. Policyholders can seek a managerial hearing with the insurance company and if they are not satisfied with the results, the policyholder can seek assistance from the OFIR Commissioner.

Additional insurance regulation and allowing the subjective refunding of premium dollars will not take costs out of the no-fault system.

Advocate Recommendation 5) Prohibit the practice of "Data Mining," where insurers sell policyholders' personal information to third parties or "marketing partners," often without the policyholder's knowledge or consent.

IIM Response:

It is important to recognize that the insurance industry in Michigan strongly supports comprehensive and responsible protections of private consumer information. The industry currently operates under a number of federal and state laws and regulations applicable to the privacy and confidentiality of non-public personal information, identity theft protection, and notice to consumers upon the breach of the security of a data.

These laws include the federal Gramm Leach Bliley Act (GLBA), Fair Credit Reporting Act (FCRA), Fair and Accurate Credit Transactions Act (FACTA), the Michigan Identity Theft Protection Act, Chapter 5 of the Insurance Code (Privacy of Financial Information), and Michigan Administrative Code Sec. 500.551 *et seq.*, Standards for Safeguarding Customer Information. Together, these laws require comprehensive safeguards on the handling of private customer information and clear and conspicuous notices to consumers as to their rights under law.

When asked by a reporter if insurance companies in Michigan were "Data Mining," the Consumer Advocated responded "no."

This recommendation does nothing to lower the cost of auto insurance for policyholders.

Advocate Recommendation 6) Close the loopholes which allow insurers to use subjective criteria such as credit scores, occupation, and level of education by:

a) requiring that rates be based on the objective criteria in the Insurance Code, such as miles driven, type of vehicle, and driving record, and

b) Designating the use of a driver's credit score, occupation, and level of education, as an Unfair Trade Practice under the Insurance Code.

IIM Response:

Michigan law only allows for the use of such factors to provide discounts if they reflect reasonably anticipated reduction in losses or expenses. The Michigan Office of Financial and Insurance Regulation has approved the use of credit-based insurance scoring since the mid-1990s.

Policyholders benefit by the use of credit-based insurance scoring. Numerous independent studies (see attached list) have shown that there is a strong correlation between a person's credit-based insurance score and likelihood of that individual filing a claim. Credit-based insurance scoring allows people with less risk to pay less. In Michigan, consumers may only receive a discount for a positive score. No one may be surcharged for a poor credit-based insurance score.

Forty-eight states specifically authorize or permit the use of credit-based insurance scoring in the underwriting and/or rating of insurance risk. Michigan's departure from this norm would simply add to the perception that Michigan is a hostile and difficult business environment. Our focus should be on growing and creating jobs, not returning to a 1960s style of regulation.

Banning discounts for such things as credit-based insurance scoring will not lower the cost of auto insurance for policyholders. It will subsidize the cost so those with less risk will pay more and those who have a greater risk of loss will pay less.

Advocate Recommendation 7) On a pilot basis, consider the option of offering a "Low Cost Auto Insurance Policy," while continuing to provide full health care benefits to consumers.

IIM Response:

The Insurance Institute of Michigan is eager to engage public policy makers in the debate over broadening the options available to the automobile insurance consumer. The debate, however, needs to focus on the reality of Michigan's insurance laws and the costs that drive rates and not the California statute which offers no lifetime, unlimited

mandatory medical coverage, no mandatory wage replacement, no mandatory replacement services, no mandatory property protection and offers lower residual liability limits.

To deliver a “low cost auto insurance policy” while still maintaining full coverage for lifetime, unlimited medical care would require subsidies in premiums for some so that others could have lower premiums.

Advocate Recommendation 8) Prohibit Insurance Commissioners from working for insurance companies for a period of at least 2 years after leaving office.

IIM Response:

The Insurance Institute of Michigan has no taken a position on this proposal.

However, the proposal will do nothing to reduce costs or lower premiums.

Advocate Recommendation 9) Enact tougher penalties for companies who raise a policyholder's rates, or cancel a policyholder's policy, after a claim is submitted, when the policyholder is not at fault. Routine “Market Conduct Examinations” should be initiated to determine industry compliance with this policy. Furthermore, there should be education to inform consumers that this practice is illegal.

IIM Response:

Michigan's law already prohibits denial, cancellation or non-renewal of policies due to not at-fault claims. Michigan law, however, is clear in establishing claims and/or loss experience as a legitimate factor in the pricing of insurance risk.

In addition, there is a process in place for policyholders to challenge the amount they are charged and their eligibility for insurance. The Essential Insurance Act gives individuals a right to an informal appeals procedure with their insurer if they believe they have been improperly denied or non-renewed, or charged an incorrect premium. If the consumer is not happy with the results of that process, they may request an appeal before the Insurance Commissioner.

Increased regulation and additional penalties for insurance companies will not result in lower premiums for policyholders.

Advocate Recommendation 10) Give consumers reasonable oversight authority over company rating practices by:

- a) Requiring companies to prominently publish proposed rate increases on OFIR's website, describing the amount of the proposed increase, in plainly-worded language, understandable to the average consumer, and
- b) Allowing consumers to challenge proposed rate increases, before they go into effect.

IIM Response:

a) Insurance companies file all rate information with the Michigan Office of Financial and Insurance Regulation (OFIR). OFIR has the ability to post this information on its website in whatever consumer-friendly format it finds appropriate. In addition, insurance companies are required under Section 500.2112 of the Insurance Code to annually disclose to their policyholders all relevant factors that make up their insurance premium, where to find additional information regarding their premium, information regarding their rights to appeal a specific premium and a suggestion to contact his or her agent to determine if they are eligible for a more favorable premium.

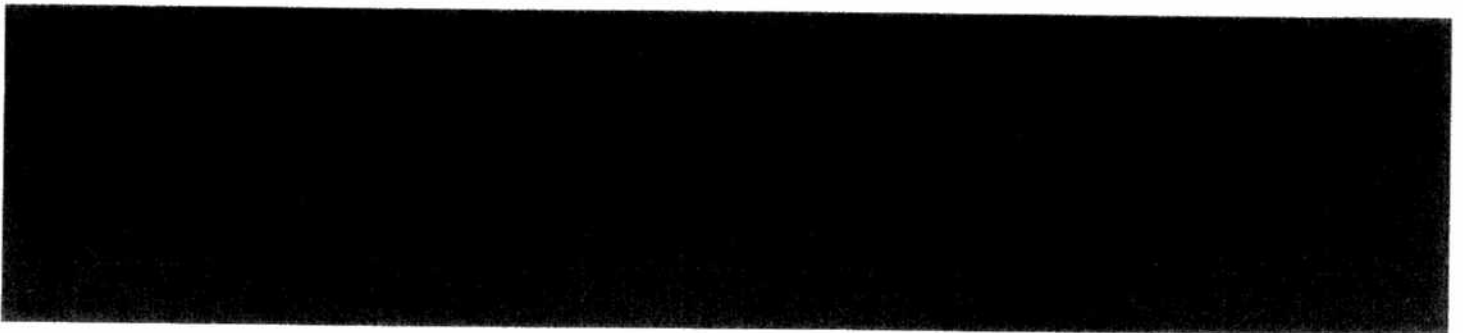
b) Section 500.2113 of the Insurance Code provides consumers with the right to an informal review of their insurance if they believe they have been charged incorrectly and to appeal to the Commissioner if their complaint is unresolved.

It is the responsibility of the Insurance Commissioner to oversee rate filing and to ensure their compliance with the law. Rate filings require the technical and professional expertise within the Michigan Office of Financial and Insurance Regulation to make these fair and reasoned legal determinations.

Duplicating provisions already in statute do not take costs out of the system and will not lower premiums for policyholders.

Insurance Institute of Michigan

DRIVING MICHIGAN: AN AGENDA TO REFORM MICHIGAN'S NO-FAULT SYSTEM



Driving Michigan: An Agenda To Reform Michigan's No-Fault Law

"No one has to lose anything if consumers are given more insurance coverage options. It's not a partisan issue. It's pro-consumer," The Detroit News, July 19, 2007

The goal: making auto insurance more affordable

Michigan's no-fault law is unlike any other.

In 1972 when Michigan's policymakers were developing a mandatory auto insurance law for residents, they created a system of benefits that would provide unlimited, lifetime medical care for those injured in auto accidents.

While this system of unlimited medical benefits was touted as the best in the country, policymakers and insurance companies acknowledged that it came with some uncertainty and would increase the cost of auto insurance for Michigan residents.

In the years since no-fault was enacted, the cost of auto insurance in Michigan has risen, along with the costs of vehicles, car repair, medical treatment and lawsuits.

Some Michigan residents say they can no longer afford auto insurance.

In an effort to get Michigan back on the right track, the Insurance Institute of Michigan supports open, responsible and legitimate discussion about ways to lower the cost of auto insurance for Michigan drivers so they can stay on the road.

Driving to work, to see friends, to see family and to community events is important to Michigan residents.

The Insurance Institute of Michigan offers "Driving Michigan: An Agenda to Reform Michigan's No-Fault System" as a way to lower costs for all drivers. A more affordable auto insurance system with motorists having greater input into selecting their coverages can help drive Michigan in the right direction.

"Michigan has some of the highest rates in the country in part because the state mandates expensive coverage, notably unlimited medical expenses; offering less lavish options could help consumers save money," the Holland Sentinel, February 6, 2009

Allowing drivers choice

Currently, state law mandates that auto insurance policyholders purchase unlimited, life-time medical benefits as part of their auto insurance policy.

This one-size fits all auto insurance system is expensive and doesn't allow policyholders to choose the level of coverage that best fits their individual needs.

In 49 other states, drivers have choices in the amount of medical coverage they purchase in their auto insurance policy. Michigan drivers deserve the same consideration.

The Insurance Institute of Michigan supports reforms that would allow policyholders to choose a level of Personal Injury Protection (PIP) coverage from \$50,000 up to the current mandated level of unlimited.

Even if policyholders selected a \$50,000 coverage option, they would continue to have the best benefits in the country. Michigan would have the same limit as New York with a minimum benefit level at \$50,000. The medical limits for the other no-fault states follow: Florida, \$10,000; Hawaii, \$10,000; Kansas, \$4,500; Kentucky, \$10,000; Massachusetts, \$8,000; Minnesota, \$40,000; New Jersey, \$15,000; North Dakota, \$30,000; Pennsylvania, \$5,000; and Utah, \$3,000.

A study commissioned by the Insurance Institute of Michigan found that drivers could save between 15 and 45 percent, depending on whether the policyholder has a full coverage policy or carries only the mandatory coverages by selecting a \$50,000 PIP level.

Driving Michigan Reform Agenda: Allowing Michigan drivers to choose the level of Personal Injury Protection (PIP) benefits that fits their individual needs.

"No other state requires motorists to have unlimited personal injury protection benefits. They apparently think it's ok for policyholders to decide for themselves how much coverage to carry, which is an opportunity those of limited means deserve especially,"
the Flint Journal, July 25, 2007

Reining in medical costs

Medical Fee Schedule

It is not news that medical costs have been increasing significantly, driving up the price of auto insurance for policyholders. During the last 10 years, medical care costs rose about 51 percent in Michigan, while the overall Consumer Price Index increased 27 percent. From 1997 to 2007, the average auto insurance Personal Injury Protection (PIP) medical claim rose more than 225 percent.

A medical fee schedule is one of the most common cost containment tools used in the workers' compensation insurance system. Forty-two states use some sort of medical fee schedule in their workers' compensation system.

IIM supports reforms that would implement a medical fee schedule in the no-fault auto insurance system. According to an IIM study, medical fee schedules could save a policyholder 10-30 percent in the medical portion of their premium, depending whether they have a full coverage policy or carry only the mandatory auto insurance coverages.

Driving Michigan Reform Agenda: Implement a medical fee schedule in the no-fault system similar to one that has brought consistency and stability to the workers' compensation market.

Attendant Care Fees

It is admirable that family members provide care for their relative who has been seriously injured in an auto accident. However, these family members are not skilled medical professionals and should not be entitled to the same rates charged by skilled professionals or institutional health care providers.

Driving Michigan Reform Agenda: Control escalating medical care costs by allowing individuals who care for their friends and family injured in auto accidents to be compensated fairly and equitably at a pre-set rate.

"It will be a tough road ahead to get auto insurance reform passed in the state legislature, but we believe it is a road that should be traveled down and investigated," the Alpena News, August 3, 2007.

Cracking down on fraud

Prompt Billing

Currently, medical care providers in Michigan have one year to submit invoices to insurance companies for services rendered for injuries resulting from auto accidents.

Under Michigan law, those charges must be "reasonable and necessary" for the care and treatment of the policyholders. The insurance industry is concerned that it is impossible, one year after the accident, to determine the reasonableness of the treatment and the cost. While most hospitals and doctors submit their bills in a timely manner, there are health care providers who wait until the very end of the one-year deadline. Insurance companies are then allowed only 30 days to review and investigate the loss before paying the bills without the risk of penalties.

IIM supports reforms to require medical charges be billed to the appropriate insurance companies within 90 days after each product or service is rendered or within 90 days after the date that the person or institution determined the identity of the appropriate insurance company.

Reducing the time frame for submitting medical claims to insurance companies for review in Michigan will deter fraudulent activity and allow carriers to review claims while the information is still timely —benefiting all policyholders.

Driving Michigan Reform Agenda: To assist in the reduction of fraudulent activity, require medical charges for the treatment of auto accident injuries to be submitted to insurance companies within 90 days.

Driving Michigan: An Agenda To Reform Michigan's No-Fault Law

"Modifying Michigan's no-fault system, while not without risk, would enable more people to purchase insurance. If insurance rates are to drop, so must costs,"
Detroit Free Press, May 1, 2008.

Cracking down on fraud

Runners, Cappers, Steerers

The terms runner, capper and steerer are used to describe a person who helps set up fake auto accidents or makes false insurance claims for theft rings, medical facilities or law firms.

Insurance fraud is one of the most costly white-collar crimes in America, ranking second to tax evasion. The National Insurance Crime Bureau estimates that property/casualty insurance fraud costs Americans \$30 billion annually. Adding other lines to the equation, like health, life and specialty insurance, the total cost of insurance fraud may exceed \$100 billion each year.

Driving Michigan Reform Agenda: Reduce fraudulent activity by outlawing the use of runners, cappers and steerers in the insurance transaction.

Fraud Bureau

To combat insurance fraud in Michigan, insurance companies have established Special Investigative Units (SIU) which train insurance personnel to identify suspicious losses that should be given a closer look. The SIUs work with law enforcement and prosecutors to ensure that the people and organized crime rings driving up the cost of insurance by taking advantage of the system are caught and punished. There is a need, however, at the local level to provide additional funding so that investigators and prosecutors can pursue insurance fraud criminals.

A Fraud Authority would dedicate funding to local units of governments for investigators or investigative units and prosecutors that would be specifically assigned to auto insurance fraud and theft cases. Funding for the Authority would be raised through the assessment on all auto insurance policies written in Michigan.

Driving Michigan Reform Agenda: Fund investigators and prosecutors dedicated to fighting insurance fraud and auto theft to reduce costs to the insurance system — benefiting all policyholders.



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